August 20, 2020

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

       Re: File No. SR-IEX-2019-15

Dear Ms. Countryman:

Investors Exchange LLC ("IEX") is writing to respond to a third comment letter from Citadel Securities ("Citadel") on IEX's D-Limit order type ("D-Limit").[1] The order type, Citadel's comments, and our responses are fully explained in our previous response letters.[2]

Citadel is arguing that D-Limit should not be approved because IEX did not provide sufficient data to satisfy Citadel's claims about its impact in a particular routing scenario that is wholly within Citadel's control. IEX has shown that D-limit is reasonably designed to provide protection from proprietary orders targeting displayed orders in discrete time frames and thereby facilitates greater opportunity for liquidity and price discovery for a wide variety of market participants. We have provided substantial support and evidence covering multiple time periods based on all the data that is available to us. The Exchange Act does not require IEX to do more.

First, IEX has more than adequately shown that IEX meets the standards for approval. IEX has shown, based on data using multiple views and over multiple time periods, that orders seeking to access displayed quotes in these two-millisecond time windows originate predominantly from firms that conduct a proprietary (non-customer facing) business. At an individual order level, firms do not mark their orders in a way that allows IEX or any exchange to determine whether the order is proprietary or, if it is submitted on behalf of another party, the nature of that party. This information is considered proprietary, and IEX has no right or ability to obtain it from member firms. For example, an order marked as "agency" reflects only that the order is executed on behalf of another party, not whether that party is an affiliate, another broker-dealer, an institutional investor, a retail investor, or another type of party. IEX has fully used and disclosed the data that is available to it to show that D-Limit is reasonably and appropriately targeted to the specific type of trading activity that taxes and disincentivizes displayed liquidity.[3]

The fact that IEX, like other exchanges, offers a retail liquidity program does not affect this point. This program involves a minimal volume of orders and, in any event, consists of non-displayed orders accessible only to designated firms seeking an execution at the midpoint of the NBBO, not displayed limit orders of the type that are at issue in the D-Limit Filing.[4]

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[1] Letter from Stephen Berger, Managing Director, Citadel, to Vanessa Countryman, Secretary, SEC, dated August 14, 2020.
[2] Defined terms in this letter are the same as used in our most recent response. *See* Letter from John Ramsay, Chief Market Policy Officer, IEX, to Vanessa Countryman, Secretary, SEC, dated August 3, 2020 ("Third Response").
[3] *See* Third Response, at 5-9.
[4] *See* Third Response, at 5; IEX Rules 11.190(b)(14), 11.190(b)(10).

Second, how D-Limit will interact with intermarket sweep orders depends critically on how individual brokers choose to route such orders, *which is precisely the same choice that brokers face in routing to every other type of displayed order that exists in the market today.* Brokers can avoid the potential impact Citadel describes by using well-established routing technology. D-Limit does not create any new or different difficulties in doing so.

The issue of capturing liquidity on all markets when sending intermarket sweep orders is commonplace. To use a simple example, assume that a broker with its trading systems located in the Carteret, N.J. data center is sending an intermarket sweep order to several exchanges also located in the same center, and another order to the New York Stock Exchange systems, located in the Mahwah data center. If it uses the fastest form of standard fiber optic transmission, its order will arrive in about 320 microseconds (approximately the duration of the IEX speed bump).[5] By the time its order arrives at the more distant market, a quote there may no longer be available at the displayed price – whether because in the interim it was executed by another firm, the quote is a "pegged" order that has been repriced by the exchange, or the order represented by the quote has been canceled by the broker that submitted it. One reason the order could have been canceled is that it was submitted by a second trading firm using the fastest wireless technology that was able to observe the executions in Cartaret and cancel the order in Mahwah before it could be executed.

To address this possible loss of liquidity, the first firm can send the order to Mahwah approximately 320 microseconds before the related orders are sent to the nearer exchanges. When its order arrives at the more distant exchange, the quote on that market will not be affected by knowledge of the executions in Cartaret.

The fact that brokers can and do choose how and when to use these strategies was confirmed by many industry firms commenting in support of IEX's exchange application four years ago (as well as comments on this proposal). It was also confirmed by the Commission itself, which cited this fact in rejecting the claims that the IEX speed bump would impermissibly interfere with the ability to access liquidity on IEX.[6] Routing orders in this way does not involve "preferencing" one market over another, as Citadel argues, it simply reflects a well-established way that firms can account for geographic and technological differences that exist in today's speed-driven markets.

IEX's speed bump is always 350 microseconds and so is the equivalent of physical distance. It reflects just one difference among exchanges, one that was expressly approved by the Commission four years ago as fully permissible under the existing regulations. Firms seeking to maximize liquidity when executing a sweep can account for that latency difference in the same way they can account for the distance between the various data centers. The only difference is that the IEX speed bump treats all brokers in exactly the same way. A firm using wireless technology will have no unique advantage in the time required to traverse the speed bump, compared to any other proprietary, full-service, or agency broker using less advanced technology.

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[5] *See* Letter from John Ramsay, Chief Market Policy Officer, to Vanessa Countryman, Secretary, SEC, dated May 10, 2010, at 14.
[6] *See* Third Response, at 13.

The ability to route in this way is precisely the same and is unaffected by D-Limit. If a broker sending a sweep order to all exchanges sends its order to IEX to account for the speed bump, just as it may account for the distance to other data centers, the CQI signal will not be triggered based on information about changes on other markets resulting from the orders that have been executed there. As stated by Goldman Sachs concerning the complexity brokers face in routing orders today:

"The addition of the D-Limit Order does not increase that complexity; it simply adds another consideration that must be factored into order routing strategies. In fact, the D-Limit Order could lead to improvements in execution quality by encouraging greater displayed liquidity without the consequences of exposure to latency arbitrage."[7]

Citadel offers no reason relevant to Exchange Act approval why it cannot account for these differences under existing regulations and based on existing market practice, if it believes it would otherwise miss liquidity on IEX. The crux of its complaint is that it could adapt but would rather not. But that complaint falls far short of showing that an exchange innovation that is expressly addressed to meet a compelling market need cannot be allowed to move forward.

Sincerely,

John Ramsay
Chief Market Policy Officer, IEX

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[7] Letter from Philip Berlinski, Co-Chief Operating Officer, Goldman Sachs & Co. LLC, to Vanessa Countryman, Secretary, SEC, dated February 26, 2020, at 4.